

LOS ANGELES UNIFIED SCHOOL DISTRICT

Audit Report

PUPIL EXCLUSIONS PROGRAM

Chapter 668, Statutes of 1978

July 1, 1999, through June 30, 2001



STEVE WESTLY
California State Controller

August 2003



STEVE WESTLY
California State Controller

August 6, 2003

Roy Romer, Superintendent
Los Angeles Unified School District
333 South Beaudry Avenue, 24th Floor
Los Angeles, CA 90017

Dear Mr. Romer:

The State Controller's Office (SCO) has completed an audit of the claims filed by Los Angeles Unified School District for costs of the legislatively mandated Pupil Exclusions Program (Chapter 668, Statutes of 1978) for the period of July 1, 1999, through June 30, 2001.

The district claimed and was paid \$2,340,260 for the mandated program. Our audit disclosed that \$697,028 is allowable and \$1,643,232 is unallowable. The unallowable costs occurred primarily because the district claimed costs that were unsupported. The amount paid in excess of allowable costs claimed, totaling \$1,643,232, should be returned to the State.

The SCO has established an informal audit review process to resolve a dispute of facts. The auditee should submit, in writing, a request for a review and all information pertinent to the disputed issues within 60 days after receiving the final report. The request and supporting documentation should be submitted to: Richard J. Chivaro, Chief Counsel, State Controller's Office, Post Office Box 942850, Sacramento, CA 94250-0001.

If you have any questions, please contact Jim L. Spano, Chief, Compliance Audits Bureau, at (916) 323-5849.

Sincerely,

Original Signed By:

WALTER BARNES
Chief Deputy State Controller, Finance

WB:ams/jj/wq

cc: (see page 2)

cc: Joseph Zeronian, Ed.D.
Chief Financial Officer
Los Angeles Unified School District
Yoshiko Fong, Controller
Los Angeles Unified School District
John Conshafter, Internal Compliance Auditor
MCS/Education Services, Inc.
Darline P. Robles, Ph.D.
County Superintendent of Schools
Los Angeles County Office of Education
Janet Sterling, Director
School Fiscal Services Division
California Department of Education
Arlene Matsuura, Manager
School Fiscal Services Division
California Department of Education
Jeannie Oropeza, Program Budget Manager
Education Systems Unit
Department of Finance
Charles Pillsbury, School Apportionment Specialist
Department of Finance

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Audit Report

Summary

The State Controller's Office (SCO) has completed an audit of the claims filed by Los Angeles Unified School District for costs of the legislatively mandated Pupil Exclusions Program (Chapter 668, Statutes of 1978), for the period of July 1, 1999, through June 30, 2001. The last day of fieldwork was February 27, 2003.

The district claimed \$2,340,260 for the mandated program. The audit disclosed that \$697,028 is allowable and \$1,643,232 is unallowable. The unallowable costs occurred primarily because the district claimed costs that were unsupported. The district was paid \$2,340,260. Consequently, the amount paid in excess of allowable costs claimed totals \$1,643,232.

Background

Chapter 668, Statutes of 1978, which added *Education Code* Sections 48213 and 48214, requires school districts to:

- Send a notice to a pupil's parent or guardian before excluding a pupil "of filthy or vicious habits" or a pupil suffering from a contagious or infectious disease;
- Grant the parent or guardian the right to meet with the governing board concerning the exclusion or proposed exclusion;
- Conduct the meeting in accordance with certain procedural rules;
- Adopt rules and regulations governing periodic reviews of their decisions to exclude pupils; and
- Provide periodic reviews of each exclusion in accordance with procedures adopted.

In addition, the legislation:

- Defines emergency situations in which a pupil may be excluded before written notification of the parents or guardians;
- States that no pupil who resides where any contagious, infectious, or communicable disease exists or has recently existed, and that is subject to strict isolation or quarantine, shall be permitted to attend school except by written permission of a county health officer; and
- States that when a pupil's parent or guardian refuses to allow a physical examination of his or her child, and there is good reason to believe that the pupil is suffering from a recognized contagious or infectious disease, the pupil shall be excluded from school until school authorities are satisfied that no contagious or infectious disease exists.

On March 27, 1997, the Commission on State Mandates ruled that certain provisions of *Education Code* Sections 48213 and 48214, as amended by Chapter 668, Statutes of 1978, imposed a state mandate upon school districts reimbursable under *Government Code* Section 17561.

Parameters and Guidelines, adopted by the Commission on State Mandates, establish the state mandate and define criteria for reimbursement. In compliance with *Government Code* Section 17558, the SCO issues claiming instructions for each mandate requiring state reimbursement to assist school districts and local agencies in claiming reimbursable costs.

Objective, Scope, and Methodology

The objective of the audit was to determine whether costs claimed are increased costs incurred as a result of the legislatively mandated Pupil Exclusions Program (Chapter 668, Statutes of 1978) for the period of July 1, 1999, through June 30, 2001.

The auditors performed the following procedures:

- Reviewed the costs claimed to determine if they were increased costs resulting from the mandated program;
- Traced the costs claimed to the supporting documentation to determine whether the costs were properly supported;
- Confirmed that the costs claimed were not funded by another source; and
- Reviewed the costs claimed to determine that the costs were not unreasonable and/or excessive.

The SCO conducted the audit in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. The SCO did not audit the district's financial statements. The scope was limited to planning and performing audit procedures necessary to obtain reasonable assurance concerning the allowability of expenditures claimed for reimbursement. Accordingly, transactions were examined, on a test basis, to determine whether the amounts claimed for reimbursement were supported.

Review of the district's management controls was limited to gaining an understanding of the transaction flow and claim preparation process as necessary to develop appropriate auditing procedures.

Conclusion

The audit disclosed instances of noncompliance with the requirements outlined above. These instances are described in the Findings and Recommendations section of this report and in the accompanying Summary of Program Costs (Schedule 1).

For the audit period, Los Angeles Unified School District claimed \$2,340,260 for costs of the legislatively mandated Pupil Exclusions Program. The audit disclosed that \$697,028 is allowable and \$1,643,232 is unallowable.

For fiscal year (FY) 1999-2000, the district was paid \$1,462,627 by the State. The audit disclosed that \$331,180 is allowable. The amount paid in excess of allowable costs claimed, totaling \$1,131,447, should be returned to the State.

For FY 2000-01, the district was paid \$877,633 by the State. The audit disclosed that \$365,848 is allowable. The amount paid in excess of allowable costs claimed, totaling \$511,785, should be returned to the State.

Views of Responsible Officials

The SCO issued a draft report on April 30, 2003. Joseph Zeronian, Chief Financial Officer, responded by the attached letter dated May 13, 2003, stating the district will not contest Finding 2, and disagreeing with Findings 1 and 3. The district's response is included in this final report.

Through a subsequent telephone conversation with Aurora Costales, Principal Accountant, on July 30, 2003, the district concurred with the revised methodology for calculating offsetting revenues described in the SCO's comment to Finding 3.

Restricted Use

This report is solely for the information and use of Los Angeles Unified School District, the Los Angeles County Office of Education, the California Department of Education, the California Department of Finance, and the SCO; it is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit distribution of this report, which is a matter of public record.

Original Signed By:

JEFFREY V. BROWNFIELD
Chief, Division of Audits

Findings and Recommendations

FINDING 1— Unsupported salaries, benefits, and related indirect costs

The district did not provide documentation to substantiate claimed salaries and benefits totaling \$1,508,795 (\$1,030,370 for FY 1999-2000 and \$478,425 for FY 2000-01). The related indirect cost is \$69,751.

The district claimed salaries, benefits, and related indirect costs based on the number of exclusions claimed for contagious or infectious diseases, or for filthy or vicious habits (mandate-related exclusions). The district multiplied the number of exclusions claimed (324,259 in FY 1999-2000 and 160,141 in FY 2000-01) by five minutes per exclusion to determine each nurse's time. A time study provided on October 8, 2001, supports the five-minute average for processing exclusions. The nurse's time was then multiplied by each nurse's hourly wage rate to determine total salary costs.

The district's records did not support the number of mandate-related exclusions claimed for the audit period. FY 1999-2000 School Nurse Health Services Summary Reports, used to record the total number of exclusions, did not segregate mandate-related and nonmandate-related exclusions. In addition, district staff stated that the numbers of mandate-related and total exclusions were not accurate because school site nurses estimated the number of exclusions.

District staff indicated that FY 2001-02 records relating to mandate-related exclusions and total exclusions are more accurate than FY 1999-2000 and FY 2000-01 records, and suggested that the exclusion information in FY 2001-02 records should be used as a basis in determining allowable FY 1999-2000 and FY 2000-01 costs. An audit of the FY 2001-02 claim filed for the Pupil Exclusions Program was not performed; however, information relating to FY 2001-02 mandate-related exclusions was verified.

The auditors selected a statistical sample of the 726 total school sites for FY 2001-02 to verify the number of mandate-related exclusions claimed. The statistical sample was chosen based on a 95% confidence level with a precision rate of +/-8% and an expected error rate of 50%. The auditors sampled 124 school sites consisting of 19,093 claimed mandate-related exclusions. Of the claimed mandate-related exclusions, 10,978 exclusions (57.5%) were supported. The sample result was projected to the FY 2001-02 population of 131,668 claimed mandate-related exclusions, resulting in 75,709 allowable exclusions.

The auditors, upon discussion and agreement with the district's Controller's staff and Nursing Director, determined that the Total Daily Attendance is an accurate basis to project FY 2001-02 allowable exclusions to the prior fiscal years. The district was not required to document total exclusions; therefore, the use of a percentage of mandate-related exclusions to total exclusions was not a valid methodology for projected the sampling results. The district's Nursing Director believes that a projection using Total Daily Attendance would produce a stronger correlation with mandate-related exclusions than total exclusions.

District records show that Total Daily Attendance for FY 2001-02 was 133,302,305. Thus, total allowable FY 2001-02 mandate-related exclusions are 0.0568% ($75,709 \div 133,302,305$) of FY 2001-02 Total Daily Attendance. Total Daily Attendance was 127,072,961 for FY 1999-2000 and 129,210,481 for FY 2000-01. Therefore, the auditors calculated allowable exclusions of 72,177 for FY 1999-2000 and 73,392 for FY 2000-01.

Using the projected allowable exclusions for FY 1999-2000 and FY 2000-01, the auditors calculated allowable salaries and benefits costs using an average hourly rate for nurses. Salaries and benefits claimed by the district support average hourly rates of \$51.71 for FY 1999-2000 and \$56.58 for FY 2000-01. Consequently, allowable salaries and benefits costs total \$311,023 for FY 1999-2000 ($72,177 \text{ exclusions} \times 5 \text{ minutes per exclusion} \div 60 \text{ minutes in an hour} \times \51.71 an hour) and \$346,043 for FY 2000-01 ($73,392 \text{ exclusions} \times 5 \text{ minutes per exclusion} \div 60 \text{ minutes in an hour} \times \56.58 an hour).

Parameters and Guidelines, Section VII, states, "... all supporting documents must be retained. . . . Such documents shall be made available to the State Controller's Office on request."

Unallowable costs are summarized as follows:

| | Fiscal Year | | Totals |
|---|-----------------------|---------------------|-----------------------|
| | 1999-2000 | 2000-01 | |
| Allowable salaries and benefits | \$ 311,023 | \$ 346,043 | \$ 657,066 |
| Claimed salaries and benefits | (1,341,393) | (824,468) | (2,165,861) |
| Unallowable salaries and benefits | (1,030,370) | (478,425) | (1,508,795) |
| Related indirect costs (4.81% for FY 1999-2000, 4.22% for FY 2000-01) | (49,561) | (20,190) | (69,751) |
| Total unallowable costs | <u>\$ (1,079,931)</u> | <u>\$ (498,615)</u> | <u>\$ (1,578,546)</u> |

Recommendation

The district should develop and implement an adequate recording and reporting system to ensure that all claimed costs are eligible and properly supported.

Auditee's Response

The district disagrees with the calculation and the reason for the adjustment by the SCO audit staff. The agreement with the SCO was for the current year calculated percentage to be applied to the two previous years claimed amounts for the Pupil Exclusion Program. See the tables [in Attachment 1, Auditee's Response to Draft Audit Report] for the correct amounts.

The revised calculation, based on the percentage that was calculated (57.5%), should have been applied to the two previous years claimed amounts. This calculation is a more realistic and accurate figure.

SCO's Comments

The finding and recommendation remain unchanged with the exception of editorial changes to clarify the finding. As previously discussed, the SCO applied the FY 2001-02 percentage of mandate-related exclusions to Total Daily Attendance to FY 1999-2000 and FY 2000-01 Total Daily Attendance. The auditors initially attempted to calculate the applicable percentage by applying the FY 2001-02 percentage of mandate-related exclusions to total exclusions to the two previous years' total exclusions. This plan was based on the district's assertion that total exclusions for FY 2001-02 and the two previous years were accurate and readily available. However, during the review, the SCO found that total exclusions for all three years were not accurate. The district's Nursing Director informed the auditors that this information was not required to be maintained by school site staff. Therefore, the number of total exclusions for all three years is not verifiable.

Consequently, the percentage calculated and its application would not have reflected activities related to the mandate. Instead, the district's Nursing Director advised the auditors that a better means of determining mandate-related exclusions would result if the percentage of FY 2001-02 mandate-related exclusions to the Total Daily Attendance was applied to the two previous years' Total Daily Attendance. During a follow-up meeting, the district provided a walk-through of this methodology and suggested that the SCO determine the allowable exclusions in the previous two years' using this methodology.

**FINDING 2—
Unsupported costs
for exclusion
notices**

The district did not provide documentation to substantiate claimed costs for exclusion notices totaling \$51,435 (\$45,225 for FY 1999-2000 and \$6,210 for FY 2000-01). There are no related indirect costs.

In FY 1999-2000, the district identified 324,259 exclusions and applied the uniform cost allowance (\$0.1749 for FY 1999-2000) to all exclusions to arrive at claimed costs of \$56,713. In FY 2000-01, the district identified 160,141 exclusions. District staff reviewed a sample of exclusions for September 2001 and concluded that exclusion notices were sent for 63% of total exclusions (1,082 exclusion notices from 1,717 exclusions reviewed). Thus, the district applied the uniform cost allowance (\$0.1821 for FY 2000-01) to 63% of the 160,141 exclusions identified for FY 2000-01 to arrive at claimed costs of \$18,372.

Finding 1 noted that the district did not maintain records to support exclusions claimed. A statistical sample of FY 2001-02 exclusions showed that 57.5% of claimed mandate-related exclusions are allowable. Thus, 57.5% of the 1,717 exclusions sampled in September 2001, totaling 987, are allowable exclusions.

The auditors then reviewed the district's sample of September 2001 exclusions to validate claimed mandated-related exclusion notices. The district staff was unable to locate exclusion notices at various school sites. In addition, several notices did not indicate the date and/or the school site. The review identified 887 allowable exclusion notices. As a

result, the district's records supported that it sent exclusion notices for 91% of allowable exclusions (887 exclusion notices ÷ 979 allowable exclusions). This percentage is applied to both FY 1999-2000 and FY 2000-01 allowable exclusions from Finding 1 to determine total allowable exclusion notices.

Parameters and Guidelines, Section V, states that the total cost allowed for exclusion notices will be determined by multiplying the uniform cost allowance by the number of pupils excluded. The uniform cost allowance was \$0.1749 per exclusion notice for FY 1999-2000 and \$0.1821 for FY 2000-01.

Unallowable costs total \$51,435, as calculated below:

| | Fiscal Year | | Totals |
|----------------------------------|-------------------|-------------------|--------------------|
| | 1999-2000 | 2000-01 | |
| Allowable exclusions (Finding 1) | 72,177 | 73,392 | 145,569 |
| Exclusion notice (percentage) | 91% | 91% | 91% |
| Totals | 65,681 | 66,787 | <u>132,468</u> |
| Uniform cost allowance | <u>\$ 0.1749</u> | <u>\$ 0.1821</u> | |
| Allowable exclusion notice costs | 11,488 | 12,162 | \$ 23,650 |
| Claimed exclusion notice costs | <u>(56,713)</u> | <u>(18,372)</u> | <u>(75,085)</u> |
| Audit adjustment | <u>\$(45,225)</u> | <u>\$ (6,210)</u> | <u>\$ (51,435)</u> |

Recommendation

The district should develop and implement an adequate recording and reporting system to ensure that all claimed costs are eligible and properly supported.

Auditee's Response

The District will not contest this figure further, however, the District feels it has complied with all documentation per the parameter and guidelines for exclusion notices. The percentage calculated by the SCO audit staff of 57.5% will be accepted for use.

SCO's Comments

The finding and recommendation remain unchanged.

Parameters and Guidelines requires that all costs claimed be supported. The district did not provide documentation supporting claimed costs for exclusion notices.

**FINDING 3—
Understated
offsetting revenues**

The district did not deduct offsetting revenues of \$13,251 (\$6,291 for FY 1999-2000 and \$6,960 for FY 2000-01) from costs claimed during the audit period.

The district's records for FY 2000-01 show that nurses' salaries were partially funded with other revenue sources (restricted funds). The auditors reviewed the revenue funding for salaries of all 378 nurses claimed in FY 2000-01. The analysis showed that 1.93% of the nurses' gross salaries was funded with other sources. Accordingly, allowable costs were adjusted for FY 2000-01 by deducting 1.93% of allowable costs from Finding 1 applicable to other revenue sources.

The district was unable to provide comparable records for FY 1999-2000. Therefore, 1.93% of allowable costs from Finding 1 were also deducted for FY 1999-2000.

Parameters and Guidelines, Section VIII states, “. . . reimbursement for this mandate received from any source, including, but not limited to service fees collected, federal funds, and other state funds, shall be identified and deducted from this claim.”

Offsetting revenues total \$13,251 as follows:

| | Fiscal Year | | Totals |
|---|-------------|------------|-------------|
| | 1999-2000 | 2000-01 | |
| Allowable salaries and benefits (Finding 1) | \$ 311,023 | \$ 346,043 | \$ 657,066 |
| Indirect costs (4.81% for FY 1999-2000, 4.22 % for FY 2000-01) | 14,960 | 14,603 | 29,563 |
| Subtotals | 325,983 | 360,646 | 686,629 |
| Offsetting revenue (percentage) | 1.93% | 1.93% | 1.93% |
| Total offsetting revenues | \$ (6,291) | \$ (6,960) | \$ (13,251) |

Recommendation

The district should ensure that all applicable reimbursements received are deducted from costs claimed.

Auditee's Response

This is a totally unacceptable finding. This method of offsetting revenue is not in the parameter and guidelines. The District disagrees that this method of offsetting revenue is acceptable. The offsetting revenue technique used has never been applied in past audits and should not be used now. Any 100 percentage restricted fund person should be deleted, but to allocate based on the percentage difference between restricted and unrestricted funds is unacceptable. The allocation method used was recently decided to be applied by the SCO and has never been applied in the past.

The parameter and guidelines used, Section VIII does not indicate that the allocation method should first be determined by deciding the percentage between restricted and unrestricted funds. It only indicates that any claim amount not exceed the unrestricted amount.

SCO's Comments

The finding and recommendation have been revised based on a review of the initial finding and subsequent discussions with district staff.

Offsetting revenues were initially calculated on a pro rata basis; whereas, the percentage of costs of an individual who was paid with restricted funds was applied to the individual's time charged to the mandate. Based on a follow-up discussion with district staff, offsetting revenues were recalculated to only deduct that portion of an individual's time charged to the mandated that exceeded the amount funded with its General Fund. The district staff agreed with this revised methodology on July 30, 2003. Consequently offsetting revenues reported in the draft report have been reduced by \$233,936, from \$247,187 to \$13,251.

Offsetting revenues were not reviewed by the SCO in past audits. Nevertheless, the district is only allowed to claim and be reimbursed for actual costs net of offsetting revenues. Thus, a review of offsetting revenues in the current audit is appropriate.

Schedule 1— Summary of Program Costs July 1, 1999, through June 30, 2001

| <u>Cost Elements</u> | <u>Actual Costs Claimed</u> | <u>Allowable per Audit</u> | <u>Audit Adjustments</u> | <u>Reference ¹</u> |
|--|---------------------------------|--------------------------------|------------------------------|-------------------------------|
| <u>July 1, 1999, through June 30, 2000</u> | | | | |
| Salaries and benefits | \$1,341,393 | \$ 311,023 | \$(1,030,370) | Finding 1 |
| Indirect costs | <u>64,521</u> | <u>14,960</u> | <u>(49,561)</u> | Finding 1 |
| Subtotals | 1,405,914 | 325,983 | (1,079,931) | |
| Cost for exclusion notices | <u>56,713</u> | <u>11,488</u> | <u>(45,225)</u> | Finding 2 |
| Subtotals | 1,462,627 | 337,471 | (1,125,156) | |
| Less offsetting savings/reimbursements | <u>—</u> | <u>(6,291)</u> | <u>(6,291)</u> | Finding 3 |
| Total costs | <u>\$1,462,627</u> | 331,180 | <u>\$(1,131,447)</u> | |
| Less amount paid by the State | | <u>(1,462,627)</u> | | |
| Allowable costs claimed in excess of (less than) amount paid | | <u>\$(1,131,447)</u> | | |
| <u>July 1, 2000, through June 30, 2001</u> | | | | |
| Salaries and benefits | \$ 824,468 | \$ 346,043 | \$ (478,425) | Finding 1 |
| Indirect costs | <u>34,793</u> | <u>14,603</u> | <u>(20,190)</u> | Finding 1 |
| Subtotals | 859,261 | 360,646 | (498,615) | |
| Cost for exclusion notices | <u>18,372</u> | <u>12,162</u> | <u>(6,210)</u> | Finding 2 |
| Subtotals | 877,633 | 372,808 | (504,825) | |
| Less offsetting savings/reimbursements | <u>—</u> | <u>(6,960)</u> | <u>(6,960)</u> | Finding 3 |
| Total costs | <u>\$ 877,633</u> | 365,848 | <u>\$ (511,785)</u> | |
| Less amount paid by the State | | <u>(877,633)</u> | | |
| Allowable costs claimed in excess of (less than) amount paid | | <u>\$ (511,785)</u> | | |
| <u>Summary: July 1, 1999, through June 30, 2001</u> | | | | |
| Salaries and benefits | \$2,165,861 | \$ 657,066 | \$(1,508,795) | Finding 1 |
| Indirect costs | <u>99,314</u> | <u>29,563</u> | <u>(69,751)</u> | Finding 1 |
| Subtotals | 2,265,175 | 686,629 | (1,578,546) | |
| Cost for exclusion notices | <u>75,085</u> | <u>23,650</u> | <u>(51,435)</u> | Finding 2 |
| Subtotals | 2,340,260 | 710,279 | (1,629,981) | |
| Less offsetting savings/reimbursements | <u>—</u> | <u>(13,251)</u> | <u>(13,251)</u> | Finding 3 |
| Total costs | <u>\$2,340,260</u> | 697,028 | <u>\$(1,643,232)</u> | |
| Less amount paid by the State | | <u>(2,340,260)</u> | | |
| Allowable costs claimed in excess of (less than) amount paid | | <u>\$(1,643,232)</u> | | |

¹ See the Findings and Recommendations section.

**Attachment—
Auditee's Response to
Draft Audit Report**

Los Angeles Unified School District

Accounting and Disbursements Division

ROY ROMER
Superintendent of Schools

THOMAS C. BOYSEN
Chief Operating Officer

JOSEPH P. ZERONIAN
Chief Financial Officer

YOSHIKO FONG
Controller

EILEEN L. OKAZAKI
Director, General Accounting

May 13, 2003

Jim L. Spano, Chief
Compliance Audit Bureau
State Controller's Office
Division of Audits
Post Office Box 942850
Sacramento, California 94250-5874

Re: Response to Draft Audit Report (Pupil Exclusion Program FY 1999-2001)

Dear Mr. Spano:

We have received the draft report of your audit on claims filed by the Los Angeles Unified School District (District) relating to the mandated Pupil Exclusion Program (PE) for the period of July 1, 1999 through June 30, 2001.

The audit report shows a disallowance of \$1,877,168 out of a total claim of \$2,340,260. This disallowance is based on three audit findings.

Finding 1 - Unsupported salaries and benefits and related indirect costs for a total of \$1,578,546.

The district disagrees with the calculation and the reason for the adjustment by the SCO audit staff. The agreement with the SCO was for the current year calculated percentage to be applied to the two previous years claimed amounts for the Pupil Exclusion Program. See the tables below for the correct amounts.

Pupil Exclusion Revised Amounts

Table 1.0

| | Rates | Claim | SCO Audit | Revised Amount |
|--|--------|--------------------|------------------|------------------|
| 1999-2000 | | | | |
| Number of Exclusions | | 324,259 | 72,177 | 186,449 |
| Unit Rate Per Page | 0.1749 | | | |
| Salaries and Benefits | | \$1,341,393 | \$311,023 | \$803,440 |
| Indirect Cost Rate | 0.0481 | \$64,521 | \$14,960 | \$38,645 |
| Subtotals | | \$1,405,914 | \$325,983 | \$842,085 |
| Cost of Exclusion Notifications | | \$56,713 | \$11,488 | \$32,610 |
| Total Direct and Indirect Costs | | \$1,462,627 | \$337,471 | \$874,695 |
| Less Offsetting Revenues | | \$0 | \$117,354 | \$0 |
| Total Costs | | \$1,462,627 | \$220,117 | \$874,695 |
| Notes: | | 100.00% | 15.05% | 59.80% |
| Average Hourly Rate-Nurse is \$51.71 | | | | |
| 5 Minutes per Exclusion | | | | |
| (186,449*5/60*51.71=803,440) | | | | |

Table 2.0

| | Rates | Claim | SCO Audit | Revised Amount |
|--|------------|------------------|------------------|------------------|
| 2000-2001 | | | | |
| Number of Exclusions (See Note2:) | Correction | 100,889 | 73,392 | 58,011 |
| Unit Rate Per Page | 0.1821 | | | |
| Salaries and Benefits | | \$824,468 | \$346,043 | \$273,521 |
| Indirect Cost Rate | 0.0422 | \$34,793 | \$14,603 | \$11,542 |
| Subtotals | | \$859,261 | \$360,646 | \$285,063 |
| Cost of Exclusion Notifications | | \$18,372 | \$12,162 | \$10,564 |
| Total Direct and Indirect Costs | | \$877,633 | \$372,808 | \$295,627 |
| Less Offsetting Revenues | | \$0 | \$129,833 | \$0 |
| Total Costs | | \$877,633 | \$242,975 | \$295,627 |
| Notes: | | 100.00% | 27.69% | 33.68% |
| Average Hourly Rate-Nurse is \$56.58 | | | | |
| 5 Minutes per Exclusion | | | | |
| (58,011*5/60*56.58=) | | | | |

Table 3.0

| | | Summary | | |
|--|--|--------------------|------------------|--------------------|
| July 1, 1999 thru June 30, 2001 | | Claim | SCO Audit | Revised Amount |
| Number of Exclusions | | 425,148 | 145,569 | 244,460 |
| Salaries and Benefits | | \$2,165,861 | \$657,066 | \$1,076,961 |
| Indirect Cost | | \$99,314 | \$29,563 | \$50,187 |
| Subtotals | | \$2,265,175 | \$686,629 | \$1,127,148 |
| Cost of Exclusion Notifications | | \$75,085 | \$23,650 | \$43,174 |
| Total Direct and Indirect Costs | | \$2,340,260 | \$710,279 | \$1,170,322 |
| Less Offsetting Revenues | | \$0 | \$247,187 | \$0 |
| Total Costs | | \$2,340,260 | \$463,092 | \$1,170,322 |
| Percentages | | 100.00% | 19.79% | 50.01% |

The revised calculation, based on the percentage that was calculated (57.5%), should have been applied to the two previous years claimed amounts. This calculation is a more realistic and accurate figure.

Finding 2 – Unsupported costs for exclusion notices for a total of \$51,435.

The District will not contest this figure further, however, the District feels it has complied with all documentation per the parameter and guidelines for exclusion notices. The percentage calculated by the SCO audit staff of 57.5 % will be accepted for use.

Finding 3 – Understated offsetting revenues for a total of \$247,187.

This is a totally unacceptable finding. This method of offsetting revenue is not in the parameter and guidelines. The District disagrees that this method of offsetting revenue is acceptable. The

Jim L. Spano, State Controller's Office
Re: Pupil Exclusion - Audit Report
May 13, 2003

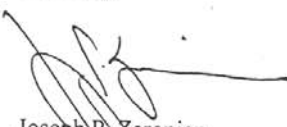
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offsetting revenue technique used has never been applied in past audits and should not be used now. Any 100 percentage restricted fund person should be deleted, but to allocate based on the percentage difference between restricted and unrestricted funds is unacceptable. The allocation method used was recently decided to be applied by the SCO and has never been applied in the past.

The parameter and guidelines used, Section VIII does not indicate that the allocation method should first be determined by deciding the percentage between restricted and unrestricted funds. It only indicates that any claim amount not exceed the unrestricted amount.

We appreciate your giving us the opportunity to respond to this draft audit report. If you need any additional information, please call Yoshi Fong, Controller, at (213) 241-7889, or Eileen Okazaki, Director of Accounting, at (213) 241-3188.

Sincerely,



Joseph P. Zeronian
Chief Financial Officer

c: Yoshiko Fong
Eileen Okazaki
Ken Furuya
Aurora Costales
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